

# Ensuring Fairness in Michigan's Medicaid Nursing Home Reimbursement System



## KEY TAKEAWAYS

### Unjustified Payment Disparity

Michigan's current Medicaid system reimburses Class III facilities (county-owned nursing homes) at significantly higher rates than Class I facilities (for-profit and nonprofit nursing homes), despite identical regulatory requirements, quality standards, staffing requirements, and resident care needs.

### Geographic Inequity

The current system creates regional disparities in healthcare resources, as Class III facilities are predominantly located in rural areas, leaving urban and suburban communities with access to comparatively under-resourced facilities.

### Need for Unified Methodology

A reformed reimbursement system should develop a unified rate methodology based on actual care delivery costs rather than ownership structure, without reducing funding to Class III facilities that currently provide high-quality care.

### Stakeholder Engagement

This policy brief recommends creating a dedicated task force to analyze the current system's impact, ensure representation from diverse communities and geographic areas, and develop equitable solutions that maintain high-quality care across all facilities.

## INTRODUCTION

Michigan's Medicaid nursing home reimbursement system requires fundamental reform to meet the needs of its aging population. The current funding structure is based on historical classifications rather than actual care costs, leading to significant payment disparities that affect healthcare access and quality across the state.

Class III facilities (county-owned nursing homes) receive substantially higher Medicaid reimbursement rates than Class I facilities (for-profit and nonprofit nursing homes), even though both types of facilities:

- Operate under the same state and federal regulatory requirements;
- Must meet the same staffing, quality, and clinical standards;
- Serve residents with comparable medical and personal care needs.

While Class III facilities play a critical role in Michigan's long-term care infrastructure—particularly in rural areas—the current system leaves urban and suburban communities with comparatively underfunded facilities. This discrepancy affects workforce retention, facility modernization, and access to high-quality services for all Michigan residents.



A thorough reassessment of Medicaid reimbursement methodology is necessary to ensure that all nursing facilities receive fair and adequate funding to provide high-quality care, regardless of ownership classification. This policy brief recommends the creation of a task force to evaluate and reform the current payment system, ensuring equity, transparency, and sustainability in Michigan's long-term care sector.

## CURRENT SYSTEM ANALYSIS

### Historical Payment Disparities with No Clear Justification

Michigan's Medicaid reimbursement system historically assigned different payment rates based on facility ownership type. While this may have been justified in the past due to funding structures or administrative policies, there is no valid regulatory, statutory, or operational basis for maintaining these differences today.

Key inconsistencies in the current system:

- Class III facilities receive significantly higher reimbursement rates despite operating under the same licensing, staffing, and quality regulations as Class I facilities.
- Facilities in both categories serve residents with identical care needs and clinical complexity.
- All facilities compete for the same workforce and face the same operational challenges, including staffing shortages and rising costs.

The current system prioritizes ownership structure over actual care costs, creating a two-tiered funding model that disadvantages large portions of the state.

## Geographic and Resource Disparities

- Class III facilities are primarily located in rural counties. This results in higher Medicaid funding and resource allocation to rural areas, while urban and suburban communities must rely on lower-funded Class I facilities.
- This funding imbalance has direct consequences:
  - Class III facilities can offer more competitive staff compensation, attract skilled workers, and invest in facility upgrades and expanded services.
  - Class I facilities, in contrast, struggle to maintain competitive wages, modernize facilities, and provide enhanced amenities—even though they serve an equally vulnerable population.

The solution is not to cut funding to Class III facilities but to ensure fair and adequate funding across all facility types, so every Michigan resident has access to high-quality care.

## STRATEGIC REFORM PRIORITIES

### 1 Establish a Unified Rate Methodology

- Develop a Medicaid reimbursement structure based on the actual cost of care delivery rather than ownership classification.
- Maintain funding levels for Class III facilities while elevating reimbursement for Class I facilities to close the gap.
- Ensure all facilities receive equitable funding to meet staffing, quality, and resident care needs.

### 2 Conduct a Comprehensive Impact Analysis

- Assess access patterns across all communities to determine where funding disparities impact care quality.
- Evaluate quality metrics in Class I and Class III facilities to ensure funding levels align with care outcomes.
- Analyze workforce retention trends, identifying how funding disparities affect hiring, wages, and staffing stability.

### 3 Implement an Equitable and Transparent Payment Model

- Develop a reimbursement structure that supports high-quality care across all facilities.
- Ensure transparent and accountable Medicaid funding, providing clear justifications for rate adjustments.
- Consider geographic and demographic factors in funding allocations to support underserved communities.
- Maintain financial stability for well-performing facilities while ensuring underfunded facilities receive necessary support.



#### 4 Engage Stakeholders Through a Task Force

- Establish a Medicaid Nursing Home Reimbursement Reform Task Force to develop and oversee reforms.
- Ensure representation from rural, urban, and suburban communities, including policymakers, providers, and consumer advocates.
- Examine how the current system affects access to care, facility operations, and patient outcomes.
- Deliver concrete recommendations for a fair and effective Medicaid funding model.

#### **POLICY CONSIDERATIONS**

Reforming Michigan's Medicaid nursing home reimbursement system requires balancing multiple priorities, including:

- Maintaining high-quality care in well-funded facilities.
- Ensuring equitable resource distribution across the state.
- Preserving financial stability for all nursing homes, regardless of ownership classification.
- Addressing systemic disparities in healthcare funding and access.

The goal is not to reduce funding for any provider but to establish a rational and sustainable payment model that ensures all Michigan residents have access to quality long-term care.

#### **CALL TO ACTION**

Michigan's Medicaid reimbursement system must evolve to meet the needs of its aging population. The current model, which is based on outdated ownership classifications, creates inequities in funding and healthcare access. To provide high-quality care for all nursing home residents, reimbursement rates must reflect the actual costs of care rather than being tied to facility ownership structures. Ensuring that all Michigan communities have access to well-funded, high-quality nursing home care is critical to meeting the state's growing long-term care needs.

To achieve this goal, policymakers must take immediate action by establishing a Medicaid Nursing Home Reimbursement Reform Task Force. This task force will be responsible for developing a fair and sustainable Medicaid payment model that eliminates disparities and ensures transparency in funding.

By addressing the fundamental flaws in the current system, Michigan can create a reimbursement framework that supports equitable, high-quality nursing home care—regardless of facility ownership classification or geographic location. The Aging Services Institute urges legislative and administrative leaders to prioritize this issue and implement reforms that will protect and improve care for Michigan's elderly and vulnerable populations.