

Modern Healthcare

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CMS claws back Medicare payments from hospitals that own nursing schools

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MH Illustration

Over the course of a decade, the federal government accidentally overpaid hospitals that own nursing schools. Now they want the money back.

For nearly a decade, the federal government has overpaid hospitals that own nursing schools an estimated \$310 million, and now the Centers for Medicare and Medicaid Services want that money back.

CMS [posted](#) a notice online in late 2020 stating that due to an agency error, nursing schools were overpaid by Medicare from 2008 through 2018 and needed to return that money. For many of the providers, that money will come due this summer unless a congressional effort to forgive the debts is successful.

For these 118 schools and their hospitals, which collectively graduate about 5,000 nurses per year, an unexpected bill from the government totaling hundreds of thousands or several millions of dollars has put holes in their budgets during a pandemic and threatened plans to expand enrollment in the face of a growing [workforce crisis](#).

Schools and hospitals argue a pandemic is the worst possible time to recoup money from them given the demand for nurses that has led to increased staffing costs and [drained hospital budgets](#).

"These dollars have already been spent years ago, and what they're (CMS) is doing is clawing it back out of Medicare payments to the system," said Heather Meade, a principal at Ernst and Young in Washington, D.C. where she represents Wellforce, a not-for-profit health system in Massachusetts that owns a nursing school. "Maybe during some other time frame, that wouldn't be as egregious, but in the middle of a pandemic? Like many hospitals, Wellforce is upside down because of COVID and the staffing shortage."

Wellforce, which graduates about 100 nursing students a year, owes about \$8.3 million to CMS and has been spending about \$3 million per week on [temporary staffing](#).

Going forward, hospital-owned nursing schools will also face an estimated 17% cut compared to what they have been receiving in the past, potentially causing some hospitals to make changes at their nursing schools.

Wellforce is evaluating what it can do to cut costs at the school, including reducing enrollment and staffing or supports offered to students.

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totaling hundreds of thousands or several millions of dollars has put holes in their budgets during a pandemic and threatened plans to expand enrollment in the face of a growing workforce crisis.

It comes at a time when nurses are leaving the industry due to [burnout](#) and [retirement](#) and providers expect [increased demand](#) as the population ages.

Hospitals like investing in these schools because they produce high-quality nurses who get on-the-ground experience and tend to work for them after graduating, a key benefit for providers in rural and underserved areas that struggle to recruit nurses and physicians, said Edwin Hernandez, president of AdventHealth University, which is owned by AdventHealth in Florida.

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Due to the pandemic and the future needs for an expanded nursing workforce, many of the schools have planned to expand enrollment significantly, a goal that CMS' clawbacks threaten, Hernandez said.

"At a time when we are planning to grow and expand, not just in workforce but faculty, support staff, facilities, scholarships, all of those will be limited and will be hampered in a very significant way," Hernandez said.

AdventHealth University, which owes CMS about \$16 million, had planned to triple its enrollment to 600 per year over the next decade.

"This essentially would wipe out our endowment and limit our ability to offer scholarships to our students," he said.

The error

In the late 1990s, when Congress created what is now called Medicare Advantage, it also set up a funding stream to help cover training at hospital-owned nursing schools. While Congress directed CMS to cap the funding at \$60 million per year, the agency failed to do so. Funding exceeded the cap by 2008, and by the time the error was recognized a decade later, CMS had already overpaid hospital-owned nursing schools by \$310 million and underpaid physician training programs by that amount. The agency discovered the problem when Graduate Medical Education programs, which shares the pool of funding with the nursing schools, realized they were underpaid,

The looming repayment date has left many nursing schools scrambling to fill unanticipated holes in their budgets.

"There aren't very many organizations for which \$10 million isn't a lot of money," said Nate Brandstater, president of Kettering College, which graduated 45 nurses in winter of 2021.

That is half of the college's annual revenue. Kettering Health, a not-for-profit health system in Ohio that owns the college, had \$49 million in operating income in fiscal year 2021 with a 2.9% operating margin, might be able to help with the costs, but there are competing priorities.

"Our healthcare enterprise has got to think 'we can hire our graduates of our own college or we can hire graduates of other colleges, and what do we want to spend \$10 million on? Do we want to continue providing this service or do we want to provide other kinds of services?'" Brandstater said.

Kettering Health spokesperson Michelle Day said in a statement it is committed to supporting the college.

"This commitment will be more challenging to fulfill in light of the federal funding cuts and of the payment reductions yet to come. We are committed to working sustainably to protect

these programs," Day said.

CMS is unlikely to recoup the full \$310 million in overpayments because it can legally only review cost reports that have been closed for three years or less and ones that are actively being negotiated.

That means some schools will face larger clawbacks than others, Meade said.

"We unfortunately had a lot of open years," she said, referring to Wellforce.

The situation has left many hospitals unsure of how much they owe or what they need to pay back. A CMS spokesperson said the net impact on hospitals will not be known until Medicare administrative contractors review eligible cost reports and reconcile payments. That process is expected to be completed by June.

The spokesperson said if providers can't pay their debts on time, they might be eligible for an extended repayment schedule.



A legislative fix?

With CMS' limited authority, nursing schools have turned to Congress for help. They are urging lawmakers to forgive their debts in the next must-pass spending package, which is due in March.

The effort has bipartisan support, with Sens. Sherrod Brown (D-Ohio) and Shelley Moore Capito (R-W.V.) sponsoring a bill that would forgive the debts. The senators sent a letter, along with 10 of their colleagues, to Senate leadership Friday asking it to be included "in the next legislative package that the Senate sends to the president's desk."

Reps. Lisa Blunt Rochester (D-Del.), Darin LaHood and Rodney Davis, both Republicans of Illinois, sponsored similar legislation in the House.

But it has still been difficult for the nursing schools to capture the Congress' attention overall, said Paul Lee, senior partner and founder of Strategic Health Care, which represents hundreds of hospitals in Washington, including ones affected by the error.

"Our biggest problem has been that it's a small problem compared to the thousands of other issues out there," Lee said. "But just because it's small doesn't mean that it's not a big deal to these hospitals producing nurses, especially during a pandemic."

Still, a legislative fix wouldn't address lower nursing home funding in the future. Hospitals weren't aware they were being overpaid for ten years and will need to adjust to their new funding.

If Congress passes the bill, then advocates might then turn their attention to asking lawmakers for further investments in hospital-based nursing schools, said Debbie Rahn, director of the Reading Hospital School of Health Sciences, which is owned by Tower Health. She estimates her nursing school owes CMS about \$20 million.

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"If we are receiving lower amounts of pass-through funding, we will need to look at tuition structures and charge students a lot more to come to our programs to meet expenses," Rahn said.

Tuition for the nursing program is between \$5,000 and \$8,700 per semester, depending on how many credits a student is taking.

"And that is one of the hallmarks of hospital-based programs. We do provide a lower-cost education for our students," she said.

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